

**Proposed Substantial Amendment
to the City of Boston's
Federal FY08/City FY09 (7/1/08-6/30/09) Action Plan
And Proposed Application to the
U.S. Dept. of Housing and Urban Development (HUD)
For A \$40 Million Section 108 Loan Guarantee
To Fund the Boston Invests Loan Pool**



**City of Boston
Thomas M. Menino, Mayor**

**Department of Neighborhood
Evelyn Friedman, Chief of Housing and Director
Department of Neighborhood Development**

January 27, 2009

**CITY OF BOSTON
DEPT. OF NEIGHBORHOOD DEVELOPMENT**

Request for Public Comment

**Proposed Substantial Amendment to Federal FY08/City FY09 Action Plan
In Application For A \$40 Million in Section 108 Loan Guarantee
From the U.S. Department of Housing and Urban Development
For the Boston Invests Loan Pool**

In accordance with the requirements of 24 CFR 91.105(c), the City of Boston hereby announces its intent to make a substantial amendment to its approved Federal FY08/City FY09 (July 1, 2008 – June 30, 2009) Action Plan in connection with a proposed application to the U.S. Department of Housing and Urban Development (HUD) for \$40,000,000 in Section 108 Loan Guarantee funds to create a Boston Invests Loan Pool to jump start stalled construction projects and create additional jobs for low and moderate income persons. It is estimated that the additional funding will assist in the creation of approximately 1150 new permanent jobs, of which at least 51% will be made available to low and moderate income persons. The Boston Invests Loan Pool will be administered by the City of Boston's Office of Business Development as part of its existing Commercial Real Estate Development program.

Copies of the proposed Substantial Amendment and Section 108 Loan Guarantee Application will be made available for a 30-day public comment period beginning on Tuesday, January 27, 2009 and ending on Thursday, February 26th, 2009. Copies of the documents may be obtained on the City of Boston Department of Neighborhood Development's website at: <http://www.cityofboston.gov/dnd/>. In preparing the final amendment and application for submission to HUD, the City will take into consideration any comments received in writing by the close of business on February 26th, 2009. Comments may be submitted in person or by mail to:

**FY2008 Action Plan Amendment (Boston Invests Loan Pool)
Policy Development & Research Division
Department of Neighborhood Development
26 Court St., 8th floor, Boston, MA 02108**

Comments may also be submitted by FAX to (617) 635-0383 or by e-mail at: actionplan.dnd@cityofboston.gov

BOSTON INVESTS LOAN FUND

SECTION 108 APPLICATION

Executive Summary

Need for the Assistance:

The City of Boston requests \$40 million in new Section 108 Loan Guarantee funds from the U.S. Department of Housing and Urban Development to create the Boston Invests Loan Fund to stimulate commercial real estate development. These new developments will help Boston meet a number of important economic development goals. They will support tourism, which remains a crucial aspect of Boston's economy, generate additional retail and economic activity. Furthermore, these projects are important generators of jobs, tax revenues for the City, and a variety of secondary economic impacts.

Since early 2008, the financing of commercial real estate has become close to impossible. Banks and other lenders have tightened their underwriting standards. This has created a specific financing gap. Banks will lend up to about 40% of commercial real estate development costs. Equity investors will cover about 50%. Closing the remaining 10% gap between first position debt and equity has proved very difficult.

There are a number of commercial projects that are ready to start construction now, but for closing this last 10% gap in their financing. These projects have all of their building permits and other approvals, and would have been underway if they had financing. The proposed new loan pool would allow up for a number of the most worthy projects fill their financing gap, start construction during 2009, and be ready for opening two years from now, when the economy is expected to be well on the road to recovery.

Neighborhood Set Aside:

Up to 10% of the loan pool will be set aside for smaller neighborhood based projects. The underwriting criteria for these loans will be the same as for the larger loans but the interest rate charged as well as the additional interest paid at the end will be lower.

Public Benefits:

There is an array of public benefits that will result from facilitating the construction of new commercial real estate projects:

- In excess of 1,150 new jobs. As only newly commercial properties could use the pool, the City's investment would create a large number of new jobs, with a significant number within the Empowerment Zone. This number of jobs will exceed the HUD requirements for job creation. It is anticipated that most of the projects will have a retail component that will allow for the creation of many new

low barrier to entry jobs. The types of jobs created have low barriers to entry, and are therefore ideal for many people within the Empowerment Zone, as well as other low-to-moderate income individuals.

- Substantial increase in tax revenues each year. The identified projects will all generate significant new real estate taxes
- Substantial increase in linkage funds. The identified projects will all generate linkage funds that will benefit other projects throughout the City.

Application Process:

This application constitutes a substantial amendment to the City of Boston's approved Federal FY2008 (July 1, 2008 - June 30-2009) Action Plan for Community Development. Specifically, the application makes two changes to the City's existing Action Plan:

- Sources: It amends the resources expected to be available for the FY09 program year to include an additional \$40 million in Section 108 Loan Guarantee funds, and
- Uses: It amends the Commercial Real Estate Development Program to add an additional \$40 million in Section 108 Loan Guarantee funds to the funding sources for this program, amends the program description to include the Boston Invests Loan Fund and amends the proposed accomplishments for the program to increase the number of proposed jobs by 1150.

A copy of the amended Commercial Real Estate Development Program Description is provided in Appendix A.

Generic Section 108 Loan Guarantee Application

This application will request HUD approval for \$40 million in new Section 108 Loan Guarantee authority for the creation of a Boston Invests Loan Fund. Once HUD approval for the \$40m million in Loan Guarantee authority has been received, the City will create the Boston Invests Loan Fund and begin to solicit proposals from eligible projects. Each funding request will then be reviewed to determine whether the project meets the underwriting standards as described elsewhere in this application. For each of funding request that meet these standards, we will submit individual applications to HUD that describe the specifics of each project. Only upon approval of the individual project by HUD will we close on the financing.

The window for applications to the City of Boston for assistance from the Boston Invests Loan Fund will only be open for a few months. It is anticipated that all funds will be committed on or before the end of Federal Fiscal Year 2009 (9/30/09) and no new applications will be accepted after that date. This loan pool is designed specifically to meet the current commercial development financing gaps resulting from the present

economic conditions. It is anticipated that the program will no longer be needed as the economy improves.

Eligible Activity and National Objective under HUD Regulations

The Eligible Activity for the projects funded by this loan pool will be the provision of assistance to for-profit business to carry out an economic development project. This is eligible as per 24 CFR Part 570.203(b)

The National Objective for the projects funded by this loan pool will be the creation of jobs for low/moderate income persons (see 24 CFR Part 570.208 (a)(4)). In general, projects will be required to create at least one new job (FTE) for every \$35,000 in assistance received from Boston Invests Loan Fund. Upon demonstration of a need for additional assistance, projects located within the City of Boston's Federally-designated Empowerment Zone may request above this \$35,000/job limit. However, in no case will the Boston Invests Loan Fund assistance exceed \$50,000 per each new job (FTE) is created. At least 50% of the jobs that are created will be made available to low-to-moderate income individuals.

Collateral and Repayment:

The collateral for each of the HUD 108 loans will be a junior mortgage on the project real estate and other assets. The HUD 108 loan, plus all senior debt, will not add up to more than 70% of the project's costs. In each case, a requirement of the program will be that at least 30% of the project costs are paid for with owner equity, which will be in a junior position to the HUD 108 loan.

Repayment of the loans will come from the cash flow of the projects. The loans will be amortized over 20 years, but the term will match that of the first position debt. This term is expected to be in the five to seven year range, with a full take-out of the HUD 108 loan required at that time. The City will request that its repayment schedule with HUD have a 20-year term. This will leave open the possibility that any one of the projects can roll over its HUD 108 loan in if, under a worst-case scenario, it is unable to refinance with another lender.

The complete underwriting requirements are described in more detail elsewhere in this application.

Project Implementation and Timeline:

The City of Boston intends to close on the first Boston Invests loan during the second quarter of 2009. The only eligible projects for this loan pool are those which have substantially completed the approval process, and are ready to start construction, but for their financing. As this loan pool will close their last gap, these projects can start construction once the HUD 108 loan closes. Before the 108 loans can close, the City will

need HUD approval of the funding for the loan pool, as well as the approval of the individual projects.

February	Completion of City of Boston Action Plan amendment process Submission of pool application to HUD
March	Approval of loan pool application by HUD City of Boston reviews individual loan applications and prepares applications to HUD for funding requests for each approved project Submission of first Boston Invests loan application to HUD
April	Approval by HUD of first Boston Invests loan application.
May	Loan closing on first individual Boston Invests loan
June-September	Submission and approval remaining Boston Invests loan applications to HUD
June Through December	Closing on remaining Boston Invests loans

Boston Invests Underwriting Criteria

Eligible Projects:

The City of Boston will accept applications for projects that are ready to start construction, “but for” having their financing in place. In order to determine if a project meets these criteria, it must have substantially completed the City of Boston’s “Article 80” or any other applicable review process by the date of the application. Article 80 is Boston’s regulatory approval process related to land use. Completion of the Article 80 process involves approval from the Board of Directors of the Boston Redevelopment Authority. The City will accept applications beginning in February 2009; applications will continue to be accepted until all of the funds have been committed.

All commercial real estate projects will have the opportunity to apply, but only those that that have appropriate approvals in place are eligible. The projects must be ready to start construction, but for their lack of financing, in order to apply. Projects still in the approval process would have to substantially complete the approval process in order to be eligible to apply.

Project Size:

This pool seeks to stimulate the creation of larger commercial development projects. Therefore, projects with a development budget of at least \$10,000,000, which will generate a building of at least 20,000 square feet, will be given priority to apply. The City may consider smaller projects on a case-by-case basis. Up to 10% of the loan pool will be set aside for neighborhood based projects which will by their nature be significantly smaller. The neighborhood projects will have a target size of between 5,000 and 20,000 square feet.

Maximum loan size:

\$15,000,000 is the maximum loan size. The target loan size will be \$10,000,000. It is anticipated that no more than six to eight projects will be funded out of the \$40,000,000 loan pool. The City will make up to 10% of the pool available to neighborhood based projects with an average loan size of \$500,000.

Lien Position:

The City of Boston's HUD 108 funded loan will be in a junior position. The only debt that will be allowed in a senior position to the HUD 108 will be private debt from a bank or another financial institution such as a pension fund. In no case will the HUD 108 and all senior debt add up to more than 70% of the development costs.

Equity requirement:

Projects must demonstrate that at least 30% of project costs will be paid for with equity that is in a junior position to the HUD 108 loan. Equity can be invested by either the owner/developer or by other outside equity investors.

Debt Service:

All senior debt on the project will be required to maintain a 1.5X debt service coverage ratio once the project is operating and a stabilized level of occupancy has been achieved. The HUD 108 loan will be required to maintain a 1.3X debt service coverage ratio at stabilized occupancy.

Loan to Value:

The total loan to value must not exceed 80%.

Repayment Terms:

The loans will be amortized over 20 years after a 5 to 10 year interest-only period, but the term will match that of the first position debt. This term is expected to be in the five to seven year range, with a full take-out of the HUD 108 loan required at the end of the

term. The City will request that its repayment schedule with HUD have a 20-year term. This will leave open the possibility that any one of the borrowers could roll over its HUD 108 loan if, under a worst-case scenario, it is unable to refinance with another lender. The borrowers will be responsible for any defeasance costs incurred by the City when the loans are repaid.

The interest rate on this loan will be the City of Boston's cost of funds from HUD plus an additional interest rate charge. This charge is required in order to cover the cost of the Section 108 Loan Guarantee transactions, as well as to compensate for the large risk that the City of Boston is taking on by making these loans.

Public Benefits:

There is an array of public benefits that will result from facilitating the construction of new commercial real estate projects:

Reasonable Costs:

Project costs will be reviewed by DND staff to determine that they are reasonable and consistent with third-party, fair market prices in the current economy and the commercial real estate market. In addition, DND will obtain, where appropriate, appraisals, environmental reports, industry published norms, and expert opinions to substantiate and/or confirm the applicant's assumptions.

Employment requirements:

Each project will be required to sign an Employment Initiative Agreement with the City of Boston. This will require that the project meet the HUD job creation requirements of the City of Boston's Small & Local Enterprise office. HUD requires that at least one permanent job be created for each \$35,000 of assistance, or \$50,000 if the project is in the Empowerment zone. 51% of the jobs must be made available to low-to-moderate income individuals. Preference will be given to projects that provide apprentice programs and other job training opportunities.

APPENDIX A

AMENDED COMMERCIAL REAL ESTATE DEVELOPMENT PROGRAM DESCRIPTION

Grantee Name: **City Of Boston**

Project Name:		Commercial Real Estate Development							
Description:		IDIS Project #:		2008-0017		UOG Code:		MA250282 BOSTON	
<p>This program provides loans and grants to for-profit businesses for larger scale economic development projects that either create or retain jobs for low-income persons or provide necessary business services to low and moderate income areas. Funding can be for acquisition, construction, rehabilitation or working capital loans for commercial and industrial projects. New: We are also requesting an additional \$40 million in Section 108 funds for the Boston Invests Loan Fund to jumpstart stalled large-scale commercial projects.</p>									
Location:		Priority Need Category							
Citywide - Low/mod areas (see reference map 6) or low/mod job creation/retention outside LMAs - see reference map 7.		Select one:		Economic Development ▼					
Expected Completion Date:		Explanation:							
(06/30/2009)		Projects either create or retain jobs for low-income persons or provide services such as restaurants, grocery stores, etc. in low and moderate income areas.							
Objective Category <input type="radio"/> Decent Housing <input type="radio"/> Suitable Living Environment <input checked="" type="radio"/> Economic Opportunity		Specific Objectives							
Outcome Categories <input checked="" type="checkbox"/> Availability/Accessibility <input type="checkbox"/> Affordability <input type="checkbox"/> Sustainability		1		Improve the services for low/mod income persons ▼					
		2		Improve economic opportunities for low-income persons ▼					
		3		Remediate and redevelop brownfields ▼					
Project-level Accomplishments	08 Businesses ▼	Proposed	208			Accompl. Type: ▼	Proposed		
	assisted	Underway					Underway		
		Complete					Complete		
		13 Jobs ▼	Proposed	1450			Accompl. Type: ▼	Proposed	
	created	Underway					Underway		
		Complete					Complete		
		Accompl. Type: ▼	Proposed				Accompl. Type: ▼	Proposed	
		Underway					Underway		
		Complete					Complete		
		Proposed Outcome		Performance Measure		Actual Outcome			
	# of jobs created/retained paying a living wage.		# of jobs created paying more than the City's Living Wage standard						
	18A ED Direct Financial Assistance to For-Profits 570.203(b) ▼		Matrix Codes ▼		Matrix Codes ▼				
Matrix Codes ▼		Matrix Codes ▼		Matrix Codes ▼					
Matrix Codes ▼		Matrix Codes ▼		Matrix Codes ▼					
Program Year 1	CDBG ▼	Proposed Amt.	\$867,104			Other ▼	Proposed Amt.	\$6,800,000	
		Actual Amount				Section 108 & EDI ▼	Actual Amount		
		Other ▼	Proposed Amt.	\$5,433,263			Fund Source: ▼	Proposed Amt.	\$40,000,000
	Section 108 & EDI ▼	Actual Amount				Section 108 ▼	Actual Amount		
	08 Businesses ▼	Proposed Units	208			Accompl. Type: ▼	Proposed Units		
	assisted	Actual Units					Actual Units		
		13 Jobs ▼	Proposed Units	1450			Accompl. Type: ▼	Proposed Units	
	created	Actual Units					Actual Units		